



**DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2001-62
August 15, 2001
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

August 2001

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the Department of Elementary and Secondary Education, Missouri School for the Blind.

As a part of our audit of the Missouri School for the Blind, we reviewed certain records of the "It Is The Soul That Sees Foundation, Inc." (Foundation), a not for profit corporation which supplements the financial needs of the school. Our review of these records found that from January 1998 through February 2001 at least \$1.7 million of collections intended for the Missouri School for the Blind were deposited in the accounts of the Foundation rather than the Missouri School for the Blind Trust Fund.

- Some of the donation and bequest checks received were made payable to the Missouri School for the Blind, but were endorsed "It is the Soul that Sees Foundation" and deposited to the Foundation account.
- In other cases, trustees and estate attorneys indicate that the school superintendent told them to make their checks payable to the Foundation. They indicate this was done to ensure the school and students got the money, and not the general fund of the state. They indicate they were told this was the way to make donations and contributions to the school.
- In one instance, it appears the checks paid from an estate were altered to show the Foundation as the payee and the checks were then deposited to the Foundation.
- In another case, the trustee was asked to reissue the check to the "It is the Soul that Sees Foundation". The original check received was payable to the Missouri School for the Blind, and two prior checks from this trust had been made payable to the school and deposited to the Trust Fund.

The Missouri School for the Blind has not complied with policies established by the State Board of Education and the Department of Elementary and Secondary Education, nor has the department provided adequate oversight of the school's operations to ensure compliance with department policies.

- A donation of \$10,000 received by the school was deposited into the school's Student Fund without the board's approval. Policy requires grants, gifts, devises, bequests, or donations of more than \$3,000 be referred to the State Board of Education for inclusion in the appropriate trust fund.

- Department policy requires the school's Activity Fund monies to be used only for "institutional expenses and student benefits such as, but not limited to, tours, mobility training, concerts, speakers, indigent student expenses, proctor expenses, and fund expenditures." We noted numerous expenditures from the Activity Fund for employee activities which did not appear to comply with department policy. These expenditures included loans to employees, food for employee meetings, and employee recognition gifts and other activities. These types of expenditures do not appear to be consistent with the stated purpose of the Student Activity Fund or a prudent use of public funds.
- During fiscal years 2000 and 1999, the school spent more than \$11,500 for food purchases associated with employee recognition activities which did not appear to comply with the department's policy. The department's policy specifically lists situations where food purchases will be allowed for employee activities and often limits the types of food which may be purchased.

The Missouri School for the Blind does not have adequate procedures to ensure unused cash and vendor receipts documenting disbursements of student activity funds are returned to the business office in a timely manner. We noted several instances where these monies were not fully accounted for, or for which there was no accounting for the cash provided to employees. For example, in December 2000 a staff member was given \$600 cash for an activity, and as of April 19, 2001, no documentation supporting how the money was spent, or any unused money, had been returned to the business office. We also noted one check for \$5,045 made payable to cash for which the school could not locate any supporting documentation. We could not determine whether the documentation had been misplaced by the school or had never been submitted to the business office as required. In addition, we noted instances where hand written receipts were submitted as supporting documentation for some of these cash expenditures.

On July 2, 1999, the school purchased a residence for the Superintendent at a cost of more than \$376,000. The Department of Elementary and Secondary Education and the Office of Administration approved the contract for the purchase of the house. At the time of the purchase, the school and the department were aware that the house required significant improvements; however, no listing or plan of improvements needed were developed or approved. During the period from July 13, 1999 through March 20, 2001, approximately \$60,000 was paid for repairs and improvements on the Superintendent's house, not including a significant amount of labor cost incurred by the school's maintenance department performing some of the improvements.

We also had findings related to accounting for student funds, contracts for professional services, federal grant management, and fixed assets.

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Missouri State Board of Education
and
Dr. D. Kent King, Commissioner
Department of Elementary and Secondary Education
and
Dr. Corinne Harmon, Superintendent
Missouri School for the Blind
St. Louis, MO 63110

We have audited the Department of Elementary and Secondary Education, Missouri School for the Blind. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2000 and 1999. The objectives of this audit were to:

1. Review certain management practices and financial information for compliance with applicable constitutional provisions, statutes, regulations, and administrative rules.
2. Review the efficiency and effectiveness of certain management practices.
3. Review certain revenues received and certain expenditures made by the school.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the school's revenues, expenditures, contracts, rules and regulations, policies, and other pertinent procedures and records, and interviewed school and other state personnel.

As part of our audit, we assessed the school's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selected tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying Statistical Section is presented for informational purposes. This information was obtained from the school's management and was not subjected to the procedures applied in the audit of the Department of Elementary and Secondary Education, Missouri School for the Blind.

The accompanying Management Advisory Report Section presents our findings arising from our audit of the Department of Elementary and Secondary Education, Missouri School for the Blind.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

April 20, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT SECTION

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
SUMMARY OF FINDINGS

1. Compliance with the Department of Elementary and Secondary Education Policies (pages 7-8)

The Missouri School for the Blind has not complied with policies established by the State Board of Education and the Department of Elementary and Secondary Education in several areas. Departmental oversight of the school's operations is needed.

2. Activity Fund Expenditures (pages 8-11)

Numerous expenditures from the Student Activity Fund appear to violate the purpose for which the fund was established. In addition, some expenditures do not appear to be prudent uses of school funds. Employee related accounts are commingled with the Student Activity Fund.

3. Activity Fund Accounting Controls and Procedures (pages 11-14)

The Missouri School for the Blind does not have adequate procedures to ensure unused cash and vendor receipts documenting disbursements are returned to the business office in a timely manner. No one accounts for the numerical sequence of receipt slips issued, and receipts are not deposited intact daily. In addition, bank reconciliations are not adequate or prepared on a timely basis.

4. Student Fund Accounting Controls and Procedures (pages 14-15)

No one reconciles the computerized files for each student with the manual ledger cards. The school has not established a policy regarding collection of amounts for students with negative account balances.

5. Contracts and Expenditures (pages 15-19)

Professional services were frequently acquired without a written contract. Payments on some other contracts continued after the contract had expired. Purchase orders were often prepared and approved after expenditures were made. Approximately \$20,000 was spent to develop a database and to purchase software, both of which were never used by the school. The Missouri School for the Blind served as a fiscal agent for a private enterprise, which appears to violate provisions in the Missouri Constitution. The school spent approximately \$60,000 on renovations to the Superintendent's residence. Some of these expenditures were incurred without independent approval and were poorly planned, resulting in additional costs.

6. Federal Grant Management and Payroll Procedures (pages 19-20)

Budgeting procedures do not appear adequate for some federal grants. Actual expenditures out of one grant exceeded budgeted expenditures by \$18,843. For another grant, actual expenditures were \$67,687 less than budgeted expenditures. For several months, no independent, supervisory review of payroll transactions was performed.

7. Fixed Asset Records and Procedures (pages 20-21)

Fixed asset records had not been updated since 1995 and adequate inventory procedures have not been in place. An annual schedule of additions and dispositions of fixed assets is not prepared as required by state regulations. Vehicle mileage logs prepared were not complete.

8. It Is The Soul That Sees Foundation, Inc. (pages 21-34)

At least \$1.7 million of distributions intended for the Missouri School for the Blind were deposited to the accounts of the “It is the Soul that Sees Foundation, Inc.”, a not for profit corporation, rather than the Missouri School for the Blind Trust Fund.

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S FINDINGS

1. Compliance with Department of Elementary and Secondary Education Policies

The Missouri School for the Blind has not complied with policies established by the State Board of Education and the Department of Elementary and Secondary Education, nor has the department provided adequate oversight of the school's operations to ensure compliance with department policies. We noted the following instances of non-compliance:

- A donation of \$10,000 received by the school was deposited into the school's Student Fund without the board's approval. Policy requires grants, gifts, devises, bequests, or donations of more than \$3,000 be referred to the State Board of Education for inclusion in the appropriate trust fund.
- Expenditures greater than \$2,000 from the school's Activity Fund were not approved by the department as required. The former school Superintendent indicated the department approved the expenditures when they approved the budget. Approval of the budget alone would not appear to comply with the Activity Fund policy since the budget is not a record of actual expenditures.
- Department policy requires the school's Activity Fund monies to be used only for "institutional expenses and student benefits such as, but not limited to, tours, mobility training, concerts, speakers, indigent student expenses, proctor expenses, and fund expenditures." We noted numerous expenditures from the Activity Fund for employee activities which did not appear to comply with department policy. As discussed later in this report, these expenditures included loans to employees, food for employee meetings, and employee recognition gifts and other activities. These types of expenditures do not appear to be consistent with the stated purpose of the Student Activity Fund or a prudent use of public funds.
- During fiscal years 2000 and 1999, the school spent more than \$11,500 for food purchases associated with employee recognition activities which did not appear to comply with the department's policy. The department's policy specifically lists situations where food purchases will be allowed for employee activities and often limits the types of food which may be purchased. In addition, these expenditures do not appear to be a prudent use of public funds.

As an entity administered by the State Board of Education and the Department of Elementary and Secondary Education, the Missouri School for the Blind is subject to board and department policies. The school should establish policies and procedures to ensure compliance with the department's policies. In addition, the state board and the department should establish procedures to provide adequate oversight of the school to ensure compliance with policies. Had the department more closely monitored the school's operations, some of the items discussed in this report may have been noted in a more timely manner.

WE RECOMMEND the Missouri School for the Blind strictly comply with the board and department policies and procedures. In addition, the State Board of Education, through the Department of Elementary and Secondary Education, establish procedures to adequately monitor the activities of the school to ensure compliance with established policies.

AUDITEE'S RESPONSE

We concur with this recommendation. Missouri School for the Blind (MSB) is currently following all policies and procedures as directed by the Board and Department. The Department has engaged a former Missouri School for the Deaf (MSD) superintendent to develop (in collaboration with the MSD and MSB business managers and a representative from the Department), a set of procedures that will ensure adequate monitoring of the State Operated Programs' activities without unnecessarily increasing the administrative burden to the schools.

2. Activity Fund Expenditures

A. Several expenditures were made from the school's Student Activity Fund that did not appear to be prudent or necessary uses of school funds. As noted earlier in this report, some of these expenditures also appear to violate the purpose for which the fund was established. Student activity monies are to be used only for purposes related to "institutional expenses and student benefits". We noted the following concerns:

- 1) During the two years ended June 30, 2000, loans were made from the school's Student Activity Fund to eight school employees or contract employees, totaling approximately \$6,900. These loans were advances for travel expenses or salaries. School policy indicates, "Should MSB cause any staff members' payroll check to be delayed, a request for a loan up to \$500 can be made". This policy does not address advances for travel expenses. Two employees received in excess of \$500; however, the school split the loan amount into two checks to ensure compliance with their policy.

Such payments would appear to violate Article VI, Section 23 of the Missouri Constitution, which prohibits any political subdivision of the state from granting or lending money to an individual. Furthermore, these payments circumvent the controls of the state's accounting system.

In addition, it is not prudent for a school to compensate employees in advance. In one case, an employee who was loaned \$850 did not repay the loan amount. The school should consider the circumstances that cause these payments and seek to improve procedures so these circumstances do not occur in the future.

- 2) During the two years ended June 30, 2000, the school spent nearly \$20,000 for food for employee meetings and activities. Of this amount, \$8,400 were lunch purchases for employee meetings held at the school. The remaining \$11,600 was for "employee recognition" activities. These food purchases represented amounts billed to the school from various food service providers and did not include amounts reimbursed to employees through expense accounts.

We reviewed the supporting documentation for nine food purchases made during the two years ended June 30, 2000. Food purchases included catered luncheons and vendor purchases. The department's policy indicates lunch will be allowed when training is held at a location where food is not available, and cake and punch will be allowed at employee recognition activities. The school purchased lunch for employee meetings held at the school where food is available, and paid for meals for the employee recognition activities which does not comply with the department's policy. These types of expenditures do not appear to be necessary or appropriate uses of student activity funds or of any other public funds.

- 3) During the two years ended June 30, 2000, the school paid approximately \$4,400 from the Student Activity Fund for employee recognition gifts or entertainment. Of this amount, \$1,300 was paid to a jazz band to perform at staff events. Examples of other employee recognition expenditures include the purchase of small jewelry items for employees and a rocking chair for a retiring employee. Such expenditures do not appear to be a prudent use of public monies and do not appear to meet the purpose of the activity fund as established by the department.

The Missouri School for the Blind should discontinue these types of expenditures from the Student Activity Fund and comply with department policies when incurring these costs from other public monies.

- B. The Student Activity Fund contains two employee related subsidiary accounts: the Flower Fund, and the Salad Bar Fund. School records are not adequate to determine whether the receipts deposited into these funds adequately cover their expenditures or if other activity fund receipts were used to cover any shortages. In addition, there is no assurance these funds were used solely for the purpose intended. For example, in the Flower Fund, employees donate \$5 a year to send flowers in the event of illness or death in an employee's family. Assuming every employee contributed to the Flower Fund, total employee contributions to the Flower Fund would have been approximately \$1,500 during the two years ended June 30, 2000. However, flower purchases made out of this fund totaled approximately \$6,700 for the two years ended June 30, 2000. While some purchases of flowers were for employees, others were for school purposes such as Christmas decorations. Whether these flower purchases were for the Flower Fund or for school purpose, these expenditures also do not appear to comply with the established purpose of the activity fund. School personnel do not adequately track revenues and expenditures of the Salad Bar Fund and therefore don't ensure collections are covering costs.

Accounting for these employee monies separately from Activity Fund monies would ensure Activity Fund monies are not used for employee related purchases and that monies collected for these funds are used only for their intended purpose.

- C. Adequate documentation was not retained to support some Student Activity Fund expenditures. We noted five disbursements totaling approximately \$6,200 for which supporting documentation such as an invoice could not be located. We were able to obtain copies of invoices from the vendors for \$3,800. All disbursements should be supported by paid receipts or vendor-provided invoices. Such documentation is necessary to ensure the purchase is a proper disbursement of school funds.

WE RECOMMEND the Missouri School for the Blind:

- A. Ensure all expenditures from the Student Activity Fund comply with fund and department policies and guidelines. In addition, the school should:
1. Discontinue the practice of issuing loans to employees.
 - 2&3. Only incur food and employee recognition costs that are prudent, necessary, and in compliance with department policies.

- B. Remove employee related subsidiary accounts from the Student Activity Fund. The school should also properly account for the receipts and disbursements of these subsidiary funds to ensure they are used for their intended purpose.
- C. Ensure adequate supporting documentation is submitted and retained for all expenditures made out of the Activity Fund.

AUDITEE'S RESPONSE

We concur with the recommendations and all processes to address the stated findings have been implemented.

3. Activity Fund Accounting Controls and Procedures
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- A. The Missouri School for the Blind does not have adequate procedures to ensure unused cash and vendor receipts documenting disbursements are returned to the business office in a timely manner. During the two years ended June 30, 2000, checks made payable to cash from the Student Activity Fund totaled approximately \$142,000. After school officials cashed these checks, the cash was given to school employees to be used for student athletic events and field trip expenses. After the field trip or athletic event, vendor receipts documenting the cash disbursements and any unused cash was to be returned to the school's business office.

We noted several instances where these monies were not fully accounted for, or for which there was no accounting for the cash provided to employees. For example, in December 2000 a staff member was given \$600 cash for an activity, and as of April 19, 2001, no documentation supporting how the money was spent, or any unused money, had been returned to the business office. We also noted one check for \$5,045 made payable to cash for which the school could not locate any supporting documentation. We could not determine whether the documentation had been misplaced by the school or had never been submitted to the business office as required. In addition, we noted instances where hand written receipts were submitted as supporting documentation for some of these cash expenditures.

For some student activities or trips, providing cash to school employees for meals and other expenses may be unavoidable. The Missouri School for the Deaf has developed a specific written policy outlining the circumstances when cash will be given to employees for athletic or field trips and the appropriate uses of the cash. The Missouri School for the Blind has no similar written policy. Developing a policy regarding when

cash can be issued and requiring prompt return of unused cash and/or credible receipts will reduce the risk of misuse of Activity Fund monies. Policies should be established in a manner that will significantly limit the number of situations where cash must be provided for student activities.

- B. While prenumbered receipt slips are issued for Activity Fund collections, no one accounts for their numerical sequence. In addition, the receipt slips were not always issued in sequence. Some receipt slips could not be located and voided receipt slips were not always retained.

To adequately account for all Activity Fund receipts, prenumbered receipt slips should be issued for all monies received. In addition, the numerical sequence of the receipt slips should be accounted for properly.

- C. Receipts are not deposited intact on a timely basis. Although receipt slips indicate the method of payment received, there is no reconciliation of the composition of receipt slips issued to the composition of deposits by an individual independent of the receiving process. Deposits were normally made once a week and averaged approximately \$2,600; however, we noted instances in which receipts were not deposited for two to three weeks. A cash count conducted on December 2000 found \$4,281 of activity fund monies on hand at the school. In addition, employees are allowed to cash personal checks out of activity fund monies. Cashing personal checks from daily cash receipts is a poor practice and reduces the accountability for monies received.

To adequately safeguard receipts and to reduce the risk of loss or misuse of funds, deposits should be made intact daily or when accumulated receipts exceed \$100. In addition, to adequately account for all monies received and recorded, and to help ensure all receipts are properly deposited, the school should immediately discontinue the practice of cashing personal checks from activity fund monies and establish an independent, documented review of the reconciliation of the composition of receipt slips issued to the composition of deposits.

- D. Bank reconciliations are not adequate and are not prepared on a timely basis. During our review of the bank reconciliations we noted the following problems:

- The book balance per the school's check register and the book balance per the bank reconciliation did not agree at the bank reconciliation date for several months we reviewed. In addition, the school appeared to be several months behind in the preparation of bank reconciliations. The benefits of a bank reconciliation are diminished if the reconciliation is not properly performed and is not completed in a timely manner.

- Several outstanding checks dating back several years were unresolved. Outstanding checks should be periodically reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If payees cannot be located, Sections 447.550 through 447.585, RSMo 2000, which relate to unclaimed property, should be used to disburse these monies.
- Voided checks were not properly retained. To ensure all checks are properly accounted for, all voided checks should be properly defaced and retained.
- We noted two instances in which a check was written and we could not locate the check on the bank statement as cleared or on the outstanding check list. As a result, the validity, propriety, or status of these checks could not be determined.

Monthly bank reconciliations, performed accurately and timely, are necessary to ensure the accounting records agree with bank records and to detect misstatements on a timely basis. In addition, checks outstanding for over a year should be investigated and reissued, if necessary.

- E. Checks are not restrictively endorsed until deposits are prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

WE RECOMMEND the Missouri School for the Blind:

- A. Develop a written policy regarding the use of cash for athletic and field trips. These policies should address ways to drastically reduce the amount of checks written to cash, ensure cash is given in cases only when the use of a check is not feasible, and ensure that any unused cash and/or credible supporting documentation is returned to the business office timely.
- B. Account for the numerical sequence of receipt slips issued and retain copies of the receipt slips.
- C. Deposit receipts daily or when accumulated receipts exceed \$100 and establish an independent, documented review of the reconciliation of the composition of receipt slips issued to the composition of deposits. In addition, the school should discontinue the practice of cashing personal checks from Activity Fund receipts.
- D. Perform timely and accurate bank reconciliations. Periodically, a review of outstanding checks should be done to determine if the payees can be located and if the checks can be reissued. If the payees cannot be located,

the monies should be disbursed to the state's Unclaimed Property Section in accordance with state law. In addition, all voided checks should be retained.

- E. Restrictively endorse all checks immediately upon receipt.

AUDITEE'S RESPONSE

- A. *We concur with the findings and will develop a written policy by September 1, 2001 in regard to Athletic and Field Trips.*
- B. *We concur with the recommendation and have implemented necessary procedures and documentation of receipts.*
- C. *Due to lack of personnel, we are unable to do daily deposits. However, the Business Office deposits receipts on a weekly basis. We concur with the findings regarding document review and reconciliation of deposit slips, the process has been implemented. The cashing of personal checks from Activity Fund receipts has been eliminated.*
- D&E. *We concur with the recommendations and all processes to address the stated findings have been implemented.*

4. Student Fund Accounting Controls and Procedures

The school's Student Fund accounts for the student's personal funds that are held by the school in a fiduciary capacity. This fund is divided into two sub-accounts: medical and personal. Subsidiary records are maintained by student for each account. We noted the following areas of concern during our review of the Student Fund:

- A. No one reconciles the computerized files for each student with the manual ledger cards also maintained for each student. These records each show amounts received and expended for each student. Based on discussions with school employees, the manual ledger cards were maintained because of concerns about the accuracy of the computer reports. However, we noted deficiencies in the manual ledgers that also indicate concerns about these ledgers. Several of the medical and personal student ledger cards did not reflect current balances. There were several student ledger cards with entry postings not recorded in chronological order. In addition, students who graduated as far back as 1996 still have a ledger card on file. As of June 30, 2000, the computerized general ledger showed a balance of \$17,657 and the manual ledger cards a balance of \$16,612. School personnel could not explain why these two sets of records did not agree.

The computerized files are reconciled to the bank balance monthly; however, there are some accounts listed on this reconciliation which did appear on any other school record. Without a complete understanding of all reconciling items, the school cannot ensure the funds are adequate to cover amounts due back to students. Reconciliations between the computerized files, subsidiary ledgers, and the bank balance is necessary to ensure that all receipts and disbursements are accounted for properly. In addition, maintaining two sets of records to account for these monies is a duplication of effort and does not appear necessary.

- B. Several personal and medical subsidiary accounts had negative balances totaling \$3,704. One student's medical account had a negative balance of \$628 at June 30, 2000. School personnel indicated they normally send one letter requesting funds from the parents. If reimbursement is not received, school monies are used to cover the shortage. The school has not developed a written policy regarding these receivables and their collection practices.

WE RECOMMEND the Missouri School for the Blind:

- A. Investigate the difference between the two sets of records maintained for the Student Fund. In the future, reconciliations should be performed between the computerized and manual records to ensure all account activity is recorded accurately and completely. After all differences are resolved, the school should also evaluate the need to maintain both the computerized and manual records.
- B. Develop written procedures to pursue collection of receivable amounts from the students. In the future, effort should be made to avoid negative balances in students' accounts.

AUDITEE'S RESPONSE

We concur with the findings and the processes will be implemented by September 1, 2001.

5. Contracts and Expenditures

- A. The Missouri School for the Blind did not always obtain written contracts for services received. In addition, payments were made during a time period in which the contract period had lapsed and a new contract had not been issued. During our review of expenditures made during the two years ended June 30, 2000, we noted the following payments for services in which either the contract had lapsed or there was no written contract:

<u>Type of Service</u>	<u>No contract/lapsed</u>	<u>Amount</u>
Occupational Therapy	Lapsed	\$ 7,632
Psychological Services	Lapsed	3,843
Consulting/Training/R&D	No Contract	3,713
Student Evaluations	No Contract	2,750
Computer Support	No Contract	2,463
Research & Development	No Contract	5,980
Art Education	No Contract	3,219

In both cases where the contract was allowed to lapse before a new contract was awarded, the hourly rate paid during lapse period exceeded the amount paid during the original contract period. In one case, the school paid \$61 per hour for psychological services during the lapse period, but contracted to pay \$55 per hour prior to the lapse period, and \$56 per hour in the subsequent contract period, with the same vendor in each case. The occupational therapy services also used the same provider during all three periods, with an additional \$4 per hour paid during the lapse period than the subsequent contract period.

All contracts entered into by the school should be in writing and should be signed by each of the parties or their agents. Written contracts are necessary to outline the terms of arrangements, specify services to be provided and the related funding, and help ensure the reasonableness and propriety of such expenditures.

B. During our review of expenditures, we noted the following concerns:

- 1) Purchase orders are not pre-numbered, and numerous purchase orders and/or requisitions were signed as approved after the purchase was made and the invoice was received. The practice of approving the purchase order and requisition after the purchase is made weakens the controls intended through the use of these forms.

Pre-numbered purchase orders should be used and issued in numerical order to ensure proper recording and accountability. In addition, purchase orders and requisitions should be approved prior to purchase to reduce the risk of improper or unauthorized expenditures occurring.

- 2) The school did not obtain adequate supporting documentation for all professional service expenditures. For example, various therapists and parent advisors did not indicate information such as the name of the student or family visited, and, in cases where they

were reimbursed mileage and paid for travel time, the location traveled.

To ensure the validity and propriety of professional service expenditures, adequate documentation of services being billed, such as the names of the students or families helped and location traveled, should be obtained.

- 3) During fiscal year 2000, the school paid \$16,275 to computer consultants, not including travel expenses, to develop a database and network for the school. School personnel indicated this database was never used, resulting in a significant waste of funds. In addition, the school paid over \$3,500 for technical support and computer software for the school's maintenance department. The software has never been used, and they currently have no plans for using it in the future. Paying consultants or purchasing software without proper research into the products being developed or purchased, and plans for their use, has resulted in unnecessary expenditures of public funds.

- C. We noted the Missouri School for the Blind served as a fiscal agent for a private enterprise. While we cannot determine the extent state resources went to support this private enterprise, it does appear that school staff provided some secretarial and bookkeeping services for this private enterprise.

Article III, Section 39 of the Missouri Constitution prohibits the use of state resources for personal or private gain. Using state resources to support a private enterprise to any extent does not appear to be a prudent or proper use of state resources.

- D. On July 2, 1999, the school purchased a residence for the Superintendent at a cost of more than \$376,000. The Department of Elementary and Secondary Education and the Office of Administration approved the contract for the purchase of the house. At the time of the purchase, the school and the department were aware that the house required significant improvements; however, no listing or plan of improvements needed were developed or approved. During the period from July 13, 1999 through March 20, 2001, approximately \$60,000 was paid for repairs and improvements on the Superintendent's house (not including a significant amount of labor cost incurred by the school's maintenance department performing some of the improvements). The following shows examples of improvements made to the house:

Construction of a new garage	\$ 12,511
Landscaping (including shrub and tree removal)	8,660
Removal of old deck and construction of a new deck	7,618
Painting	4,350
Voice, data, and television cabling	4,892
Three washer and dryer sets	4,258

While many of these expenditures may have been necessary, some do not appear to be prudent uses of school resources. For example, school personnel indicated three washer and dryer sets were purchased because the former Superintendent was not satisfied with the first two. (The first two sets purchased are in use or in storage at the school.) In addition, it appears additional costs were incurred in the construction of the new deck because the former Superintendent was not satisfied with the deck railing that was initially installed. The former Superintendent directed that the first deck railing be removed and replaced, at an additional cost.

It appears that renovation decisions made on the house were made only by the Superintendent or Business Manager and no review or approval of these decisions was made by the Department of Elementary and Secondary Education or the Office of Administration. Decisions of this type should not be left solely to the person who will directly benefit.

WE RECOMMEND the Missouri School for the Blind:

- A. Enter into written contracts that specifically state the services to be provided and compensation to be paid. Any expenditures made should be monitored for compliance with the terms of the contract. In addition, the school should ensure that amounts paid are reasonable and in accordance with an existing contract.
- B.1. Use pre-numbered purchase orders, and ensure purchase orders and requisition are approved prior to purchase.
2. Ensure adequate supporting documentation is obtained to substantiate expenditures.
3. Ensure expenditures are necessary and a prudent use of public funds. The school should consider consulting with the department's information technology section before making computer related purchases.
- C. Discontinue the school's relationship as fiscal agent for the private enterprise. The school should also refrain from any similar relationship in the future.

- D. Ensure that major building improvements or renovations are well planned and approved in advance of work being performed to avoid unnecessary and wasteful spending. In addition, the department should consider requiring their review and approval on any future capital improvement expenditures.

AUDITEE'S RESPONSE

We concur with the recommendations and all processes to address the stated findings have been implemented.

6. Federal Grant Management and Payroll Procedures

- A. Two federal grants were not properly managed during the year ended June 30, 2000. The school received a federal grant award of \$151,014 to pay salaries and fringe benefits for five residential advisors. During June 2000, the Residential Advisor grant was used to pay five teachers aides and five additional residential advisors that were not included in the original grant budget. As a result of using the grant monies for this unauthorized purpose, grant expenditures exceeded the grant budget by \$18,843. These excess expenditures were apparently paid from other DESE funds.

The school also receives the Missouri Statewide Parent Involvement Network, which is an Outreach Service from Missouri School for the Blind, for families of children birth through age 5, who are visually impaired and may have additional disabilities. For the year ended June 30, 2000, the school received a total grant award of \$117,345. However, of this grant award amount only \$49,658 was expended. While the school did request an extension of one year during which the grant monies may be expended, more accurate program budgets should be prepared.

The practice of misestimating expenditures reduces the usefulness of the budget document as a control over expenditures. For the budget document to be of maximum assistance in managing the grant, the grant budget should provide a reasonable estimate of planned expenditures and actual expenditures incurred should be kept within the budgeted amounts.

- B. There were several months during our audit period when no review of the payroll entries made by the payroll clerk was performed by the superintendent, the business manager, or any other supervisor. Payroll entries were made by the payroll clerk and then sent directly to the Department of Elementary and Secondary Education for final approval and the preparation of payroll checks. Effective and necessary controls

over payroll require that school officials verify the payroll entries to supporting documentation to ensure payments for salaries are accurate.

WE RECOMMEND the Missouri School for the Blind:

- A. Properly manage federal grants so the amount of the grant is not exceeded and budgets are an accurate reflection of grant expenditures.
- B. Ensure payroll entries made by the payroll clerk are reviewed and approved by someone independent of the payroll process.

AUDITEE'S RESPONSE

We concur with the recommendations and all processes to address the stated findings have been implemented.

7. Fixed Asset Records and Procedures
--

- A. The fixed asset records have not been updated since 1995. A school employee conducted an inventory of fixed assets during 2000; however, this inventory was not reconciled to fixed asset records.

Complete and accurate fixed asset records are necessary to properly safeguard assets. The Code of State Regulations, at 15 CSR 40-2.031, requires state agencies to maintain adequate fixed asset records that include identification number; description of the item including name, make, model and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition; physical location; and method and date of disposition, if applicable. In addition, to ensure all fixed assets can be properly accounted for, annual physical inventories should be conducted and reconciled to the fixed asset records as required by the Code of State Regulations, at 15 CSR 40-2.031. Documentation of the physical inventory should be retained to show compliance with state regulations.

- B. An annual schedule of additions and dispositions of fixed assets is not prepared. The Code of State Regulations, at 15 CSR 40-2.031, requires state agencies to prepare a statement of changes in fixed assets annually to summarize transactions occurring during the fiscal year.
- C. Mileage logs maintained by the facility for its state-owned vehicles were not always filled out completely or accurately with beginning and ending mileage information. In addition, supervisory approval of trips was not always indicated on the log.

Mileage logs, which are completed accurately and fully, and supervisory approval of trips are necessary to determine if the vehicles are being used efficiently and only for official state business.

WE RECOMMEND the Missouri School for the Blind:

- A. Ensure complete and accurate fixed asset records are maintained. Conduct an annual physical inventory of the general fixed assets and reconcile the physical inventory to the fixed asset records. Documentation of the physical inventory should be retained to show compliance with state regulations.
- B. Prepare an annual schedule of fixed asset additions and dispositions, and prepare a statement of changes in fixed assets annually in accordance with state regulations.
- C. Ensure mileage logs are complete and accurate. In addition, the logs should also document supervisory approval of trips to help ensure the vehicles are being used efficiently and appropriately.

AUDITEE'S RESPONSE

We concur with the recommendations and all processes to address the stated findings have been implemented.

8. It Is The Soul That Sees Foundation, Inc.

As a part of our audit of the Missouri School for the Blind, we reviewed certain records of the "It Is The Soul That Sees Foundation, Inc." (Foundation), a not for profit corporation which supplements the financial needs of the school. Our review of these records found that from January 1998 through February 2001 at least \$1.7 million of collections intended for the Missouri School for the Blind were deposited in the accounts of the Foundation rather than the Missouri School for the Blind Trust Fund.

While conducting our audit of the Missouri School for the Blind, we made a request for records related to the "It is the Soul that Sees Foundation, Inc.". The Foundation board, one member of which was the former superintendent of the Missouri School for the Blind, denied that request for records. While we were still pursuing the Foundation's records, the Department of Elementary and Secondary Education subsequently identified concerns related to distributions from some wills and bequests to the school, which were deposited into this Foundation's accounts, and not into the Missouri School for the Blind Trust Fund. The department contacted our office and this review was performed to more fully

investigate this matter and determine the amount of distributions due to the Missouri School for the Blind, which were not deposited into the Trust Fund.

The Missouri School for the Blind Trust Fund, established by Section 162.790, RSMo 2000, is to receive all gifts and bequests to the school and is to be spent solely for the support of the school. The monies are in the custody of the State Treasurer and the state board of education, and are expended through the state appropriation process, at the direction of the Missouri School for the Blind.

In 1993, the “It is the Soul that Sees Foundation, Inc.”, a not for profit corporation was established. The Foundation is overseen by a four-member board of directors, which included the school’s superintendent and business manager. The stated purpose of the Foundation is to establish a permanent charitable organization that will supplement the financial needs of the Missouri School for the Blind. This not for profit organization has identified itself as the “It is the Soul that Sees, Foundation, DBA (doing business as) the Missouri School for the Blind”, and operates at the school’s address. It also referred to itself as the “It is the Soul that Sees Foundation, of or on behalf of the Missouri School for the Blind”. The Foundation board’s treasurer was also the school’s business manager for a period of time.

Deposits into the Foundation’s accounts were reviewed and at least \$1.7 million was improperly deposited to the Foundation, from January 1998 through February 2001. Items noted during our review of these deposits included:

- Some of the donation and bequest checks received were made payable to the Missouri School for the Blind, but were endorsed “It is the Soul that Sees Foundation” and deposited to the Foundation account.
- In other cases, trustees and estate attorneys indicate that the school superintendent told them to make their checks payable to the Foundation. They indicate this was done to ensure the school and students got the money, and not the general fund of the state. They indicate they were told this was the way to make donations and contributions to the school.
- In one instance, it appears the checks paid from an estate were altered to show the Foundation as the payee and the checks were then deposited to the Foundation.
- In another case, the trustee was asked to reissue the check to the “It is the Soul that Sees Foundation.” The original check received was payable to the Missouri School for the Blind, and two prior checks from this trust had been made payable to the school and deposited to the Trust Fund.

These distributions were made from various estates, whose wills/trusts identified the Missouri School for the Blind, as beneficiary and should have been deposited to the Missouri School for the Blind Trust Fund. The monies should be in the custody of the state Board of Education and the State Treasurer as provided by state law. Expenditures would then be made through the appropriation process, at the direction of the Missouri School for the Blind.

Administrators and attorneys, responsible for making these distributions, have indicated that they were directed to make the checks payable to the “It is the Soul that Sees Foundation, Inc.”. They were told this was the Missouri School for the Blind’s Foundation, when in fact, it is a not for profit corporation, under no control or supervision from the state of Missouri or Missouri School for the Blind. Other checks deposited to the Foundation account were also payable to the Missouri School for the Blind. It is not clear whether these monies were intended for the Trust Fund or the Foundation.

It does not appear that the Foundation, as it is operating, is necessary or proper. The line between the school and the Foundation is not clear. The purpose and operations of this Foundation appear to duplicate that of the Trust Fund. Although monies deposited to the Foundation may have been spent for the benefit of the Missouri School for the Blind, it is the Trust that should have received the \$1.7 million of receipts identified above, not a nonprofit corporation. There is no benefit to the state for these monies to be handled by the Foundation. In addition, any private entity or foundation created to benefit the school should not have involved employees of the Missouri School for the Blind.

Information related to this Foundation and these deposits has been turned over to the Missouri Attorney General’s office. In addition to the instances noted above, additional distributions may have been made and intended for the Missouri School for the Blind which were not deposited to the Trust Fund. We are continuing our work and requests have been made for additional bank records. Information regarding any additional receipts which were not properly handled will be turned over to the Missouri Attorney General’s office.

WE RECOMMEND the Department of Elementary and Secondary Education continue to work with the Missouri Attorney General to recover the monies remaining in the “It is the Soul that Sees Foundation, Inc.” accounts, for the Missouri School for the Blind Trust Fund. In addition, the Missouri School for the Blind, along with the department, should establish controls and procedures to ensure all future distributions or payments intended for the school are deposited to the Trust Fund, as required by state law.

AUDITEE’S RESPONSE

The Department is currently working with the Office of the Attorney General to recover the funds. Some support by the State Auditor’s Office may be requested to better identify

how some of the funds were expended. The Department will ensure a set of protocols is developed to ensure that all future distributions or payments intended for the School for the Blind are deposited in the Trust Fund. The School Superintendent, the Business Manager, and the Administrative Assistant will be requested to acknowledge an understanding of the state law and of the procedures to be followed.

FOUNDATION'S RESPONSE

See addendum to Management Advisory Report Section.

This report is intended for the information of the management of the Department of Elementary and Secondary Education, Missouri School for the Blind and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

ADDENDUM TO MANAGEMENT ADVISORY REPORT SECTION - FOUNDATION'S RESPONSE

GARVIN & MALONEY

ATTORNEYS AT LAW

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(314) 725-1135

FAX (314) 727-9071

July 16, 2001

LEO V. GARVIN, JR.

Karen Laves, CPA
Director of Audits
Office of State Auditor
224 State Capitol
Jefferson City, Missouri 65101

Re: "It Is The Soul That Sees" Foundation, Inc.

Dear Ms. Laves:

Thank you for the copy of the draft findings and recommendations of the audit of the Missouri School for the Blind which relate to the "It Is The Soul That Sees" Foundation, Inc. ("Foundation"). This letter will serve as the Foundation Board's initial reply. The Board is available to meet with you to discuss the matter further in the event you need additional information. We will address the draft findings and recommendations which merit a reply (and for which we have completed our investigation in order to be able to reply) in turn.

Findings

1. *As part of our audit of the Missouri School for the Blind, we reviewed certain records of the "It Is The Soul That Sees" Foundation, Inc. (Foundation), a not for profit corporation which supplements the financial needs of the school. . . . While conducting our audit . . . we made a request for records related to the [Foundation]. The Foundation board . . . denied that request for records.*

Response:

This language unfairly and incorrectly implies a lack of cooperation on the part of the Foundation. By letter dated March 16, 2001, the Foundation Board advised that the Foundation would

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not submit to an audit by the Missouri Auditor, because the Foundation was a private corporation and "the Missouri Attorney General's office has . . . consistently opined that the Auditor is without authority to audit private corporations." The Foundation Board further expressed its' willingness to "cooperate fully with any lawful request for information by a person or agency with the appropriate legal authority to conduct such an investigation."

Since that time, the Foundation has in fact agreed to cooperate with the Missouri Attorney General's office in a review of certain bequests and/or distributions made to the Foundation, which the Office of the Auditor has concluded should have been turned over to the School for the Blind Trust Fund.

2. *The Missouri School for the Blind Trust Fund, established by Section 162.790 RSMo 2000, is to receive all gifts and bequests to the school . . .*

Response:

The School for the Blind Trust Fund was created by the General Assembly through enactment of §162.790 Rev.Mo.Stat. (2000). Not all gifts to the school, however, are required to be placed in the trust fund. The statute provides in pertinent part as follows:

"162.790. Donated funds, how handled -
special funds created - annual
report on all money in trust funds
required

"1. All funds derived from grants,
gifts, donations or bequests or from the sale
or conveyance of any property acquired
through grant, gift, donation, devise or
bequest to or for the Missouri School for the
Blind . . . at the discretion of the state
board of education, *may* be deposited in the
state treasury and credited to a special
trust fund known as the "School for the Blind
Trust Fund" . . ."

(italics and emphasis added)

The proposed finding therefore omits a critical portion of the statute which created the School for the Blind Trust Fund,

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and would mislead potential donors to think that a gift to the school *will* or somehow *must* be placed into the School for the Blind Trust Fund. This is not the case.

3. Money from the School for the Blind Trust Fund is to be spent *solely for the support of the school.*

Response:

The language from \$162.790.4 is actually somewhat more restrictive, and provides that:

"4. The moneys in the school for the blind trust fund . . . shall not be appropriated for the support of the schools in lieu of general state revenues but shall be appropriated only for the purpose of carrying out the objects for which the grant, gift, donation, devise or bequest was made."
(emphasis added)

The General Assembly intended, then, not merely to restrict School for the Blind Trust Fund expenditures to items for the "support of the school", but also directed that the money should not be used as an opportunity for the General Assembly or for education officials to use general state revenues elsewhere.

Recent history suggests that the General Assembly's directive may be being ignored. The mere deposit of a gift into the School for the Blind Trust Fund does not ensure that the gift will be used for the purposes for which the School for the Blind Trust Fund was established. There is an Attorney General's opinion which concludes that money from the School for the Blind Trust Fund may be used to pay for routine operating expenses for MSB when two conditions are met:

(1) the donor did not earmark the donation for a specific purpose, and

(2) the General Assembly has appropriated less funding than requested

See, Op.Atty.Gen. No. 36-83, Mallory, 1-20-83.

As a result, unless the Grantor of a Trust is careful to designate a very specific use for his/her gift, the gift may well

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be used to pay for routine operating expenses and afford the General Assembly (or the Department of Elementary and Secondary Education) an opportunity to spend general revenue money elsewhere. It is unlikely that most testators or grantors would approve the dissipation of their gift (accumulated over a lifetime) on general operating expenses; yet this is precisely what can happen with the money in the School for the Blind Trust Fund.

The Foundation Board has felt for sometime that the School for the Blind Trust Fund has been misused, a concern which was shared by at least one former member of the state board of education. The Foundation Board believes, and state records should confirm, that School for the Blind Trust Fund money has been used in the recent past to pay for programs and services mandated by federal law. If the programs are mandated, the General Assembly should appropriate general revenue to pay for them, and state education officials should not use the School for the Blind Trust Fund to pay an obligation of the state. Examples of mandated programs paid for from School for the Blind Trust Funds include, but are not necessarily limited to, speech therapy services, orientation and mobility training, and extended school year programs. In addition, transportation services, asbestos removal, lead abatement, and maintenance to the school's roof and air conditioning system have been paid from the School for the Blind Trust Fund. The latter categories would seem to represent expenses which should have been paid by general state revenue.

Another apparently inappropriate charge against the School for the Blind Trust Fund was recently revealed in a response to our request for documents pursuant to §610.023 Rev.Stat.Mo. (2000). The General Assembly included in §162.790 a requirement that the state board of education report to the Governor, commissioner of education, and the General Assembly each year with respect to the activity of the School for the Blind Trust Fund. The statute provides in pertinent part as follows:

"5. The state board of education shall make a report in writing . . . on or before the first day of February of each year in which the general assembly convenes in regular session . . . The report shall include the amounts of all receipts and disbursements, the name of the depository and investment officer, a description of the securities or other investments being administered, and the plans and projects

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contemplated by the state board of education
for use of the moneys."

\$162.790.5.

In April of this year, I requested copies of the two most recent annual reports required by \$162.790.5 Rev.Stat.Mo. (2000). The General Counsel of the Missouri Department of Elementary and Secondary Education provided me with copies of the reports for the years 1997-1998, and 1998-1999. The "reports" are included in the Appendix. They consist of nothing more than a balance sheet and a purported analysis of the change(s) in the School for the Blind Trust Fund balances. This does not appear to comply with the language in \$162.790.5. There is, for example, no statement of "plans and projects" contemplated for the use of the money remaining in the fund.

As deficient as the reports may be, they do reveal that Hancock refunds were charged against the School for the Blind Trust Fund in both 1997-98 (in the amount of \$15,408) and in 1998-99 (in the amount of \$34,379). It is difficult to understand how a refund required by the Hancock Amendment could result in a charge against the School for the Blind Trust Fund, when trust fund assets are made up of grants, gifts, donations, devises, or bequests.

4. Deposits into the Foundation's accounts were reviewed and at least \$1.7 million was improperly deposited to the Foundation, from January 1998 through February 2001. . . . Administrators and attorneys, responsible for making these distributions, have indicated that they were directed to make the checks payable to the "It Is The Soul That Sees Foundation, Inc."

Response:

This finding unfairly implies that attorneys and administrators were misled into making distributions to the Foundation, rather than making distributions to the School for the Blind Trust Fund. The Foundation was provided with copies of correspondence from three attorneys and the counsel for Commerce Trust Company, purportedly in support of the contention that the attorneys had been misled into making distributions to the Foundation instead of the School for the Blind Trust Fund.

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The attorneys who were so identified were provided with information and documentation related to the Foundation. The attorneys and the trust company counsel were further advised that if they felt the distributions made by them should be returned from the Foundation, the Foundation would return the distributions to them. The trust company counsel, and two of the three attorneys contacted, have thus far responded that they are satisfied that the distributions were properly made to the Foundation. No response has yet been received from a third attorney. In addition, a fourth attorney, representing another trust, has independently advised that it is his opinion that not only were the original distributions made on behalf of his client properly made to the Foundation, he intends to make an additional distribution to the Foundation.

Finding

5. *In one instance, it appears the checks paid from the estate were altered to show the Foundation as the payee and the checks were deposited to the Foundation.*

Response:

The attorney for the Tunesi Trust has reported that his firm sent the initial distribution of \$100,000 in September, 2000, payable to the "Missouri School for the Blind". His recollection is that he received a telephone call shortly thereafter from Yvonne Howse, who told him that the Foundation was the "charitable arm" of the MSB. She told the attorney that she would add the Foundation's name to the check. He had no objection to the Foundation being added to the check at that time, and he has no objection now. Receipts were returned to the Tunesi Trust reflecting distributions to the Foundation, rather than simply the Missouri School for the Blind.

We advised the attorney that the Foundation was willing to return the distributions in the event he felt the distributions had been improper. He responded that he does not intend to take any action to have either distribution returned, because he is apparently satisfied that the funds will benefit the MSB. The attorney will not take a position, however, in favor of one side or the other in the event of a legal contest for the proceeds of the distributions from the Tunesi Trust.

Finding

6. *It does not appear that the Foundation, as it is operating, is necessary or proper. . . . The purpose and operations of the Foundation appear to duplicate that of the Trust Fund. . . . There is no benefit to the state, for these monies to be handled by the Foundation. In addition, any private entity or foundation created to benefit the school should not have involved employees of the Missouri School for the Blind.*

Response

The Foundation Board agrees that there is no benefit to the state for "these monies" to be handled by the Foundation. Nor should there be, because the state was never an intended beneficiary of any of the estates or trusts under review. The beneficiary is the Missouri School for the Blind, and it should be left to the Personal Representatives or Trustees to determine how best to carry out the intent of their testators or grantors. It is precisely the attitude betrayed in this finding (i.e., "there is no benefit to the state"), which refutes the assertion that the Foundation is not necessary. The Foundation is necessary because the "state" may otherwise act as though the money was being distributed to the state.

The Foundation was incorporated, at the suggestion of Missouri education officials, on August 16, 1993. The concept of a private foundation for the benefit of a school such as MSB is not unique to Missouri. Similar foundations exist in Alabama and Kentucky, to ensure the continued economic well being and survival of the schools. The Foundation's purpose was to raise funds to supplement the financial needs of the Missouri School for the Blind in the face of likely declining state revenue. The Foundation applied for and received tax-exempt status from the Internal Revenue Service.

Foundation Directors receive no compensation for their services. All Foundation programs are for the sole purpose of aiding the students at the Missouri School for the Blind. Past expenditures by the Foundation include, but are not limited to, the purchase of computers; research activities of the Council of Schools for the Blind; student participation on the Student Leadership Council (students visit other schools across the city, state, and nation); a joint project with the Rotary International Clubs; participation in a cross-country race using specially constructed bicycles; a concert series; and supplementation of the Missouri School for the Blind's training programs in

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blindness and deaf-blindness for families and professionals
Foundation assets now approximate One Million Three Hundred
Thousand Dollars (\$1,300,000.00).

The Foundation Board has included more than the original
four members for quite some time. In addition to the two members
formerly employed by the school referred to in your findings, the
members include the following individuals:

President

Darrell F. Lauer
Southwestern Bell (Ret.)

Members

Jessica Brown
Southwestern Bell (Ret.)

Thomas Gregory
Cardinal Glennon Children's Hospital

Michael Keller
Anheuser-Busch Cos., Inc. (Ret.)

Captain Adam Long
St. Louis Fire Department

Dr. John McCluskey
Not for Profit Management and Leadership
Program, University of Missouri - St. Louis

Kenneth Mitchell
Missouri School for the Blind

Judith Murphy, CPA
Rubin Brown Gornstein & Co., LLP
Certified Public Accountants

The Foundation board members represent diverse elements of
the business and academic community. Inclusion of the
superintendent of the Missouri School for the Blind and the
school's business manager on the initial board was at the
suggestion of state education officials. The superintendent's
service on the Foundation board was reviewed as part of her
performance evaluation as superintendent of MSB.

It may well be that school employees should not be named to

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voting positions on the Foundation Board, but it is felt that the superintendent should at least occupy an *ex officio* position for liaison purposes, and to enable the school to present its needs to the Foundation.

Recommendation

WE RECOMMEND the Department of Elementary and Secondary Education continue to work with the Missouri Attorney General to recover the monies remaining in the "It Is The Soul That Sees Foundation, Inc." accounts, for the Missouri School for the Blind Trust Fund. In addition, the Missouri School for the Blind, along with the department, should establish controls and procedures to ensure all future distributions or payments intended for the school are deposited to the Trust Fund, as required by state law.

Response:

Not surprisingly, the Foundation Board reaches a different conclusion. The historical misuse of the School for the Blind Trust Fund assets would by itself be a compelling argument to create such a Foundation if none already existed.

The Foundation Board is unaware of a significant decrease in the amount of contributions to the School for the Blind Trust Fund since creation of the Foundation, so it does not seem fair to claim that someone has been diverting contributions from the School for the Blind Trust Fund to the Foundation. What does seem clear, however, is that when the options available for making a contribution to benefit the Missouri School for the Blind are fairly and accurately explained, the overwhelming number of donors will choose to make a contribution to the Foundation rather than the school directly (which contribution may or may not make it into the School for the Blind Trust Fund), or to the School for the Blind Trust Fund (and be subject to dissipation through payment of routine operating expenses which should be paid from the state's general revenue).

The Foundation Board desires to resolve this dispute in an amicable manner, and in a way that provides the parties with guidance as to how fund raising for the school will be carried out in the future. A previous offer by the Foundation Board to meet and attempt to resolve these issues with state education officials was unfortunately summarily rebuffed. This rebuff only served to intensify the belief of some Foundation Board members

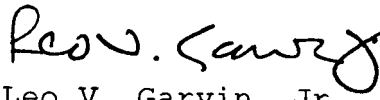
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that the Department of Elementary and Secondary Education's agenda is to close the Missouri School for the Blind on philosophical grounds. If this attitude persists on the part of state officials, it will make an amicable resolution very difficult.

Do not hesitate to contact me in the event you need any further information with respect to your draft audit findings and recommendations.

Very truly yours

A handwritten signature in dark ink, appearing to read "Leo V. Garvin, Jr.", with a stylized flourish at the end.

Leo V. Garvin, Jr.

LVGjr:ms

cc: Foundation Board
Kip Stetzler

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri School for the Blind provides residential and day-school programs for school-age children who are legally blind, deaf-blind or have other multiple disabilities. Through its outreach services, the School for the Blind also provides technical assistance and resources to local school districts serving children who are blind or visually impaired. The school is celebrating its 150th year of service to blind students in 2001. The State Board of Education governs the school and the superintendent is its chief executive officer. Dr. Yvonne Howze served as Superintendent of the school from 1990 until March 2001. Dr. Corinne Harmon served as Interim Superintendent until July 2001, when she was appointed Superintendent. A five-member board of advisers, appointed by the State Board of Education, assists the school in planning its programs and services. There were 148 full-time employees at the school during the 1999-2000 school year.

During the 1999-2000 school year, the school had an average attendance of 114 students with 70 being resident students. The school also serves blind children throughout the state in a variety of ways. During the 1999-2000 school year, the school served 204 deaf/blind children ages birth through twenty-one, 35 children in local school districts, 1088 in the American Printing House for the Blind Program, and 51 in an early childhood program. In addition, the school trained 151 teachers during the 1999-2000 school year.

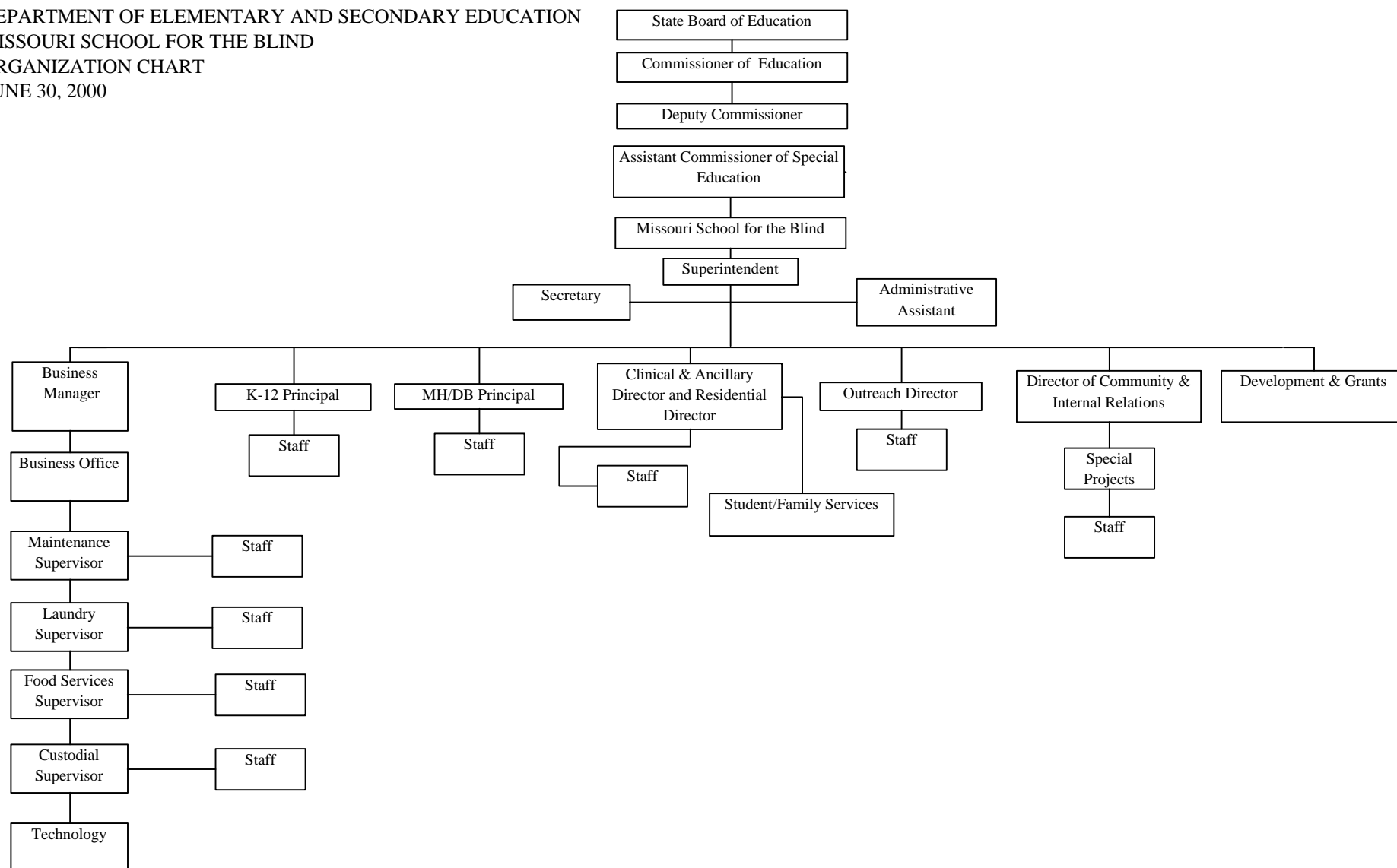
A five-member board of advisors is appointed by the commissioner of education for a term of four years. At June 30, 2000, the members of the board were:

	<u>Term Expires</u>
Mr. Donald K. Gerard, President	October 11, 2002
Mr. Philip Hamilton, Vice President	October 11, 2001
Mrs. Jane Pfefferkorn, Member	October 11, 2002
Mrs. Barbara Walker, Member	October 11, 2000
Mr. Leon Burke, Member	July 18, 2000

The board acts in an advisory capacity in regard to maintenance, operation, management, control, and all matters pertaining to conduct and improvement of the school. Each board member receives \$100 per year plus actual expenses as compensation for services.

An organization chart follows:

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
ORGANIZATION CHART
JUNE 30, 2000



APPENDIX A-1

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2000

	Appropriation/ Allocation	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE			
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo - Personal Service and/or Expense and Equipment	\$ 5,150,978 *	5,138,478	12,500
New Technology Grants Program pursuant to the Outstanding Schools Act and for planning and implementing computer network infrastructure for public elementary and secondary schools in this state including computer access to the Department of Elementary and Secondary Education and to improve the use of classroom technology	4,420 *	4,420	0
Apportionment to school districts, and to the state board operated school programs for expense and equipment, one-half the amount accruing to the General Revenue Fund from the County Foreign Insurance Tax	9,842 *	9,842	0
Design and Construction - Assessment, abatement, removal, remediation, and management of hazardous materials and pollutants - (Missouri School for the Blind portion)	90,737 *	12,831	77,906
Total General Revenue Fund - State	5,255,977	5,165,571	90,406
ELEMENTARY AND SECONDARY EDUCATION-FEDERAL AND OTHER FUND			
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo - Personal Service and/or Expense and Equipment	1,081,083 *	799,719	281,364
Total Elementary and Secondary Education-Federal and Other Fund	1,081,083	799,719	281,364
BINGO PROCEEDS FOR EDUCATION FUND			
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo - Personal Service and/or Expense and Equipment	217,189 *	217,189	0
Department of Elementary and Secondary Education - Maintenance, repairs, replacements, and improvements of roofing systems at the Missouri School for the Blind	210,119 *	5,408	204,711
Elementary and Secondary Education - Design, renovation, construction, and improvements at the Missouri School for the Blind	720,319	709,961	10,358
Elementary and Secondary Education - Maintenance, repairs, replacements and improvements at the Missouri School for the Blind	108,692	5,793	102,899
Elementary and Secondary Education - Maintenance, repairs, replacements and improvements at the Missouri School for the Blind	391,510	279,990	111,520
Maintenance, repairs, replacements, and improvements at facilities statewide	50,051 *	50,051	0
Elementary and Secondary Education - Design, land acquisition, demolition, renovation, construction, and improvements at the Missouri School for the Blind	556,121	534,687	21,434
Total Bingo Proceeds For Education Fund	2,254,001	1,803,079	450,922

APPENDIX A-1 (Continued)

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2000

	Appropriation	Expenditures	Lapsed Balances
LOTTERY PROCEEDS FUND			
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo	27,881 *	27,881	0
Total Lottery Proceeds Fund	27,881	27,881	0
SCHOOL FOR THE BLIND TRUST FUND			
Missouri School for the Blind - Expense and Equipment	1,050,000	1,029,233	20,767
Elementary and Secondary Education - Design, land acquisition, demolition, renovation, construction, and improvements at the Missouri School for the Blind	704,583	527,065	177,518
Missouri School for the Blind - Capital improvements	500,000	261,242	238,758
Total School For The Blind Trust Fund	2,254,583	1,817,540	437,043
Total All Funds	\$ 10,873,525	9,613,790	1,259,735

* This represents the amount allocated to the school or the amount expended by the school from an appropriation to the department.

APPENDIX A-2

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 1999

	Appropriations/ Allocation	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE			
Apportionment to school districts, and the state board operated school programs for expense and equipment, one-half the amount accruing to the General Revenue Fund from the County Foreign Insurance Tax	\$ 9,666 *	9,241	425
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo. For Personal Service and/or Expense and Equipment for State Board of Education operated schools	5,150,719 *	5,150,726	(7)
Total General Revenue Fund - State	5,160,385	5,159,967	418
ELEMENTARY AND SECONDARY EDUCATION - FEDERAL AND OTHER FUND			
Personal Service and/or Expense and Equipment at State Board of Education School Programs	982,161 *	957,758	24,403
Total Elementary and Secondary Education - Federal and Other Fund	982,161	957,758	24,403
GAMING PROCEEDS FOR EDUCATION FUND			
Elementary and Secondary Education - Maintenance, repairs, replacements and improvements at the Missouri School for the Blind	1,722	741	981
Total Gaming Proceeds for Education Fund	1,722	741	981
BINGO PROCEEDS FOR EDUCATION FUND			
Elementary and Secondary Education - Maintenance, repairs, replacements and improvements at Missouri School for the Blind	182,258	182,258	0
Elementary and Secondary Education - Unprogrammed maintenance, repairs, replacements and improvements at Missouri School for the Blind	11,910 *	11,910	0
Elementary and Secondary Education - Maintenance, repairs, replacements, and improvements of roofing systems at the Missouri School for the Blind	187,274 *	187,274	0
Total Bingo Proceeds for Education Fund	381,442	381,442	0
LOTTERY PROCEEDS FUND			
Distributions to the free public schools under the School Foundation Program as provided in Chapter 163 RSMo. For the State Board of Education operated schools	16,014 *	16,014	0
Total Lottery Proceeds Fund	16,014	16,014	0

APPENDIX A-2 (Continued)

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 1999

	Appropriations/ Allocation	Expenditures	Lapsed Balances
VIDEO INSTRUCTIONAL DEVELOPMENT AND EDUCATIONAL OPPORTUNITY FUND			
Video Instructional Development and Educational Opportunity Program, state-supported institutions of higher education and public television stations and state board operated schools for expense and equipment and instruction; and for the development and purchase of instructional programs transmitted through the airwaves or by cable television which are available for all residents of this state without charge pursuant to and for the purposes set forth in Chapter 170 RSMo	3,000 *	3,000	0
Total Video Instructional Development and Educational Opportunity Fund	3,000	3,000	0
SCHOOL FOR THE BLIND TRUST FUND			
Missouri School for the Blind - Expense and Equipment	1,000,000	783,481	216,519
Missouri School for the Blind - Capital Improvements	500,000	51,927	448,073
Elementary and Secondary Education - Design, land acquisition, demolition, renovation, construction, and improvements at the Missouri School for the Blind	972,737	268,153	704,584
Total School for the Blind Trust Fund	2,472,737	1,103,561	1,369,176
Total All Funds	\$ 9,017,461	7,622,483	1,394,978

* This represents the amount allocated to the school or the amount expended by the school from an appropriation to the department.

APPENDIX B

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
MISSOURI SCHOOL FOR THE BLIND TRUST FUND
COMPARATIVE STATEMENT OF CHANGES IN CASH AND INVESTMENTS

		Year Ended June 30,	
		2000	1999
ADDITIONS			
Investment income	\$	2,352,678	443,802
Investment expenses		(124,283)	(17,463)
Net investment income		2,228,395	426,339
Donations		135,923	46,881
Other		1,319	1,550
Total Additions		2,365,637	474,770
DEDUCTIONS			
Travel and vehicle expense		123,664	74,181
Office expense and equipment		133,892	140,388
Services		570,172	424,161
Equipment		69,091	62,319
Capital improvements		661,792	367,343
Other		210,496	189,306
Total Deductions		1,769,107	1,257,698
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS		596,530	(782,928)
CASH AND INVESTMENTS, JULY 1		6,379,244	7,162,172
CASH AND INVESTMENTS, JUNE 30	\$	6,975,774	6,379,244

APPENDIX C-1

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)
YEAR ENDED JUNE 30, 2000

Salaries and wages	\$	4,951,714
Travel, in-state		278,349
Travel, out-of-state		56,071
Fuel and utilities		250,592
Administrative supplies		80,012
Lab and medical supplies		5,573
Merchandising supplies		492
Repair, maintenance, and usage supplies		106,943
Residential supplies		77,525
Specific use supplies		58,681
Professional development		61,452
Communication services and supplies		26,922
Health services		57,272
Business services		80,241
Professional services		836,350
Housekeeping and janitor services		6,313
Equipment maintenance and repair services		70,410
Transportation maintenance and repair services		5,847
Computer equipment		24,961
Educational equipment		8,480
Electronic and photo equipment		4,280
Medical and laboratory equipment		909
Motorized equipment		54,895
Office equipment		29,023
Specific use equipment		10,637
Stationary equipment		5,930
Property and improvements		2,263,631
Building lease payments		5,175
Building and equipment rentals		5,854
Miscellaneous expenses		132,696
Rebillable expenses		56,557
Total Expenditures	\$	<u><u>9,613,790</u></u>

APPENDIX C-2

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)
YEAR ENDED JUNE 30, 1999

Salaries for permanent employees	\$	3,811,789
Wages for temporary employees		857,482
Per diem		81,878
Professional services		174,730
Building and office repairs and improvements		452,905
Travel and vehicle expense		172,597
Transportation equipment purchase		16,726
Office expense		109,873
Office Communication equipment purchases		9,516
Communication expense		42,700
Institution and physical plant expense		590,747
Institution and physical plant purchases		73,307
Data processing expense and equipment		69,469
Professional services		991,360
Other expense		167,405
Total Expenditures	\$	<u><u>7,622,483</u></u>

APPENDIX D

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
ACTIVITY FUND
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH

	Year Ended June 30,	
	2000	1999
RECEIPTS		
Total Receipts	191,472	181,960
DISBURSEMENTS		
Total Disbursements	177,707	163,732
CASH, JULY 1	23,007	4,779
CASH, JUNE 30	36,772	23,007

APPENDIX E

DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION
MISSOURI SCHOOL FOR THE BLIND
STUDENT FUND
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH

	Year Ended June 30,	
	2000	1999
RECEIPTS		
Total Receipts	42,082	22,273
DISBURSEMENTS		
Total Disbursements	23,403	23,958
CASH, JULY 1	(1,024)	661
CASH, JUNE 30	17,655	(1,024)

* * * * *